

ADVANCE AUTO PARTS INC
Form 10-Q
June 04, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended April 25, 2009

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission file number 001-16797

ADVANCE AUTO PARTS, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

54-2049910
(I.R.S. Employer
Identification No.)

5008 Airport Road, Roanoke, Virginia 24012
(Address of Principal Executive Offices)
(Zip Code)

(540) 362-4911
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report).

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Registration S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of June 1, 2009, the registrant had outstanding 95,241,195 shares of Common Stock, par value \$0.0001 per share (the only class of common stock of the registrant outstanding).

PART I. FINANCIAL INFORMATION

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF
ADVANCE AUTO PARTS, INC. AND SUBSIDIARIESAdvance Auto Parts, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
April 25, 2009 and January 3, 2009
(in thousands, except per share data)
(unaudited)

Assets	April 25, 2009	January 3, 2009
Current assets:		
Cash and cash equivalents	\$ 50,902	\$ 37,358
Receivables, net	87,519	97,203
Inventories, net	1,681,336	1,623,088
Other current assets	34,037	49,977
Total current assets	1,853,794	1,807,626
Property and equipment, net of accumulated depreciation of \$838,985 and \$817,428	1,061,683	1,071,405
Assets held for sale	2,911	2,301
Goodwill	34,603	34,603
Intangible assets, net	27,195	27,567
Other assets, net	21,542	20,563
	\$ 3,001,728	\$ 2,964,065
Liabilities and Stockholders' Equity		
Current liabilities:		
Bank overdrafts	\$ 7,986	\$ 20,588
Current portion of long-term debt	1,094	1,003
Financed vendor accounts payable	95,180	136,386
Accounts payable	910,199	791,330
Accrued expenses	407,568	372,510
Other current liabilities	48,650	43,177
Total current liabilities	1,470,677	1,364,994
Long-term debt	279,010	455,161
Other long-term liabilities	72,236	68,744
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, nonvoting, \$0.0001 par value, 10,000 shares authorized; no shares issued or outstanding	-	-
Common stock, voting, \$0.0001 par value, 200,000 shares authorized; 103,385 shares issued and 95,237 outstanding at April 25, 2009 and 103,000 shares issued and 94,852 outstanding at January 3, 2009	10	10

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Additional paid-in capital	351,961	335,991
Treasury stock, at cost, 8,148 and 8,148 shares	(291,114)	(291,114)
Accumulated other comprehensive loss	(8,544)	(9,349)
Retained earnings	1,127,492	1,039,628
Total stockholders' equity	1,179,805	1,075,166
	\$ 3,001,728	\$ 2,964,065

The accompanying notes to the condensed consolidated financial statements
are an integral part of these statements.

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Advance Auto Parts, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
For the Sixteen Week Periods Ended
April 25, 2009 and April 19, 2008
(in thousands, except per share data)
(unaudited)

	Sixteen Week Periods Ended	
	April 25, 2009	April 19, 2008
Net sales	\$ 1,683,636	\$ 1,526,132
Cost of sales, including purchasing and warehousing costs	861,648	801,278
Gross profit	821,988	724,854
Selling, general and administrative expenses	664,406	580,576
Operating income	157,582	144,278
Other, net:		
Interest expense	(7,611)	(12,325)
Other (expense) income, net	(104)	28
Total other, net	(7,715)	(12,297)
Income before provision for income taxes	149,867	131,981
Provision for income taxes	56,282	49,895
Net income	\$ 93,585	\$ 82,086
Basic earnings per share	\$ 0.99	\$ 0.86
Diluted earnings per share	\$ 0.98	\$ 0.86
Average common shares outstanding	94,473	94,987
Average common shares outstanding - assuming dilution	94,889	95,607

The accompanying notes to the condensed consolidated financial statements
are an integral part of these statements.

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Advance Auto Parts, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
For the Sixteen Week Periods Ended
April 25, 2009 and April 19, 2008
(in thousands)
(unaudited)

	Sixteen Week Periods Ended	
	April 25, 2009	April 19, 2008
Cash flows from operating activities:		
Net income	\$ 93,585	\$ 82,086
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	45,155	44,620
Amortization of deferred debt issuance costs	111	111
Share-based compensation	4,171	5,715
Loss (gain) on property and equipment, net	6,351	(1,246)
Provision (benefit) for deferred income taxes	2,180	(2,182)
Excess tax benefit from share-based compensation	(723)	(327)
Net decrease (increase) in:		
Receivables, net	9,684	900
Inventories, net	(58,248)	(88,851)
Other assets	14,852	26,233
Net increase in:		
Accounts payable	118,869	112,244
Accrued expenses	50,296	28,162
Other liabilities	6,439	6,136
Net cash provided by operating activities	292,722	213,601
Cash flows from investing activities:		
Purchases of property and equipment	(50,216)	(58,863)
Proceeds from sales of property and equipment	76	4,117
Other	-	(1,750)
Net cash used in investing activities	(50,140)	(56,496)
Cash flows from financing activities:		
Decrease in bank overdrafts	(12,602)	(28,127)
Decrease in financed vendor accounts payable	(41,206)	(6,625)
Dividends paid	(11,378)	(11,659)
Payments on note payable	(226)	(165)
Borrowings under credit facilities	173,400	239,700
Payments on credit facilities	(349,900)	(190,700)
Proceeds from the issuance of common stock, primarily exercise of stock options	11,485	2,926
Excess tax benefit from share-based compensation	723	327
Repurchase of common stock	-	(158,308)
Other	666	-
Net cash used in financing activities	(229,038)	(152,631)

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Net increase in cash and cash equivalents	13,544	4,474
Cash and cash equivalents, beginning of period	37,358	14,654
Cash and cash equivalents, end of period	\$ 50,902	\$ 19,128

The accompanying notes to the condensed consolidated financial statements
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Advance Auto Parts, Inc. and Subsidiaries
 Condensed Consolidated Statements of Cash Flows - (Continued)
 For the Sixteen Week Periods Ended
 April 25, 2009 and April 19, 2008
 (in thousands)
 (unaudited)

	Sixteen Week Periods Ended	
	April 25, 2009	April 19, 2008
Supplemental cash flow information:		
Interest paid	\$ 8,907	\$ 12,807
Income tax payments, net	11,070	30,499
Non-cash transactions:		
Accrued purchases of property and equipment	18,442	19,272
Changes in other comprehensive income (loss)	805	(3,082)

The accompanying notes to the condensed consolidated financial statements
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Notes to the Condensed Consolidated Financial Statements
For the Sixteen Week Periods Ended April 25, 2009 and April 19, 2008
(in thousands, except per share data)
(unaudited)

1. Basis of Presentation:

The accompanying condensed consolidated financial statements include the accounts of Advance Auto Parts, Inc. and its wholly owned subsidiaries, or the Company. All significant intercompany balances and transactions have been eliminated in consolidation.

The condensed consolidated balance sheets as of April 25, 2009 and January 3, 2009, the condensed consolidated statements of operations for the sixteen weeks ended April 25, 2009 and April 19, 2008, and the condensed consolidated statements of cash flows for the sixteen week periods ended April 25, 2009 and April 19, 2008, have been prepared by the Company. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the financial position of the Company, the results of its operations and cash flows have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's consolidated financial statements for the fiscal year ended January 3, 2009.

The results of operations for the interim periods are not necessarily indicative of the operating results to be expected for the full fiscal year.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

Vendor Incentives

The Company receives incentives in the form of reductions to amounts owed and/or payments from vendors related to cooperative advertising allowances, volume rebates and other promotional considerations. The Company accounts for vendor incentives in accordance with Emerging Issues Task Force, or EITF, No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor." Many of these incentives are under long-term agreements (terms in excess of one year), while others are negotiated on an annual basis or less (short-term). Both cooperative advertising allowances and volume rebates are earned based on inventory purchases and initially recorded as a reduction to inventory. These deferred amounts are included as a reduction to cost of sales as the inventory is sold since these payments do not represent reimbursements for specific, incremental and identifiable costs. Total deferred vendor incentives included in Inventory, net were \$47,585 and \$50,527 at April 25, 2009 and January 3, 2009, respectively.

Similarly, the Company recognizes other promotional incentives earned under long-term agreements as a reduction to cost of sales. However, these incentives are recognized based on the cumulative net purchases as a percentage of total estimated net purchases over the life of the agreement. The Company's margins could be impacted positively or negatively if actual purchases or results from any one year differ from its estimates; however, the impact over the life of the agreement would be the same. Short-term incentives (terms less than one year) are generally recognized as a reduction to cost of sales over the duration of any short-term agreements.

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Amounts received or receivable from vendors that are not yet earned are reflected as deferred revenue in the accompanying condensed consolidated balance sheets. Management's estimate of the portion of deferred revenue that will be realized within one year of the balance sheet date has been included in Other current liabilities in the accompanying condensed consolidated balance sheets. Earned amounts that are receivable from vendors are included in Receivables, net except for that portion expected to be received after one year, which is included in Other assets, net on the accompanying condensed consolidated balance sheets.

Preopening Expenses

Preopening expenses, which consist primarily of payroll and occupancy costs related to the opening of new stores, are expensed as incurred.

Warranty Liabilities

The warranty obligation on the majority of merchandise sold by the Company with a manufacturer's warranty is the responsibility of the Company's vendors. However, the Company has an obligation to provide customers free replacement of merchandise or merchandise at a prorated cost if under a warranty and not covered by the manufacturer. Merchandise sold with warranty coverage by the Company primarily includes batteries but may also include other parts such as brakes and shocks. The Company estimates its warranty obligation based on the historical return experience of the product sold and records any change as income or expense in the period the product is sold.

Sales Returns and Allowances

The Company's accounting policy for sales returns and allowances consists of establishing reserves for estimated returns at the time of sale. The Company estimates returns based on current sales levels and the Company's historical return experience on a specific product basis. The Company's reserve for sales returns and allowances was not material at April 25, 2009 and January 3, 2009.

Financed Vendor Accounts Payable

The Company is party to a short-term financing program with a bank allowing it to extend its payment terms on certain merchandise purchases. The substance of the program is for the Company to borrow money from the bank to finance purchases from vendors. The Company records any discount given by the vendor to its inventory and accretes this discount to the resulting short-term payable to the bank through interest expense over the extended term. At April 25, 2009 and January 3, 2009, \$95,180 and \$136,386, respectively, was payable to the bank by the Company under this program and is included in the accompanying condensed consolidated balance sheets as Financed vendor accounts payable.

The balance in Financed vendor accounts payable continues to diminish as the Company transitions its merchandise vendors to customer-managed services arrangements.

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Cost of Sales and Selling, General and Administrative (“SG&A”) Expenses

The following table illustrates the primary costs classified in each major expense category:

Cost of Sales	SG&A
Total cost of merchandise sold including:	Payroll and benefit costs for retail and corporate team members;
– Freight expenses associated with moving merchandise inventories from our vendors to our distribution center,	Occupancy costs of retail and corporate facilities;
– Vendor incentives, and	Depreciation related to retail and corporate assets;
– Cash discounts on payments to vendors;	Advertising;
Inventory shrinkage;	Costs associated with our commercial delivery program, including payroll and benefit costs,
Defective merchandise and warranty costs;	and transportation expenses associated with moving merchandise inventories from our retail stores to our customer locations;
Costs associated with operating our distribution network, including payroll and benefit costs, occupancy costs and depreciation; and	Self-insurance costs;
Freight and other handling costs associated with moving merchandise inventories through our supply chain	Professional services; and
– From our distribution centers to our retail store locations, and	Other administrative costs, such as credit card service fees, supplies, travel and lodging.
– From our Local Area Warehouses, or LAWs, and Parts Delivered Quickly warehouses, or PDQs®, to our retail stores after the customer has special-ordered the merchandise.	

Please see Note 2 for a discussion of a change in accounting principle for costs included in inventory.

New Accounting Pronouncements

In June 2008, the Financial Accounting Standards Board, or FASB, issued EITF No. 08-3, "Accounting by Lessees for Nonrefundable Maintenance Deposits." EITF 08-3 requires that nonrefundable maintenance deposits paid by a lessee under an arrangement accounted for as a lease be accounted for as a deposit asset until the underlying maintenance is performed. When the underlying maintenance is performed, the deposit may be expensed or capitalized in accordance with the lessee's maintenance accounting policy. Upon adoption entities must recognize the effect of the change as a change in accounting principle. The Company adopted the provisions of EITF 08-3 effective January 4, 2009. The adoption of EITF 08-3 had no impact on the Company's financial position, results of operations or cash flows.

In April 2008, the FASB issued FASB Staff Position, or FSP, FAS 142-3, "Determination of the Useful Life of Intangible Assets", which amends the factors that must be considered in developing renewal or extension assumptions used to determine the useful life over which to amortize the cost of a recognized intangible asset under Statement of Financial Accounting Standards, or SFAS, No. 142, "Goodwill and Other Intangible Assets." The FSP requires an entity to consider its own assumptions about renewal or extension of the term of the arrangement, consistent with its expected use of the asset, and is an attempt to improve consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141, "Business Combinations." The Company adopted the provisions of FSP FAS 142-3 effective January 4, 2009. The adoption of the FSP had no impact on the Company's financial position, results of operations or cash flows.

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On April 9, 2009, the FASB issued FSP SFAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" which amends SFAS 157 by incorporating a two-step process to determine whether a market is not active and a transaction is not distressed. FSP FAS 157-4 is effective for interim and annual periods ending after June 15, 2009. The Company does not expect the adoption of FSP FAS 157-4 to have a material impact on the Company's consolidated financial statements.

On April 9, 2009, the FASB issued FSP FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Statements" which amends the interim disclosure requirements in scope for SFAS No. 107, "Disclosures about Fair Value of Financial Instruments." This FSP is effective for interim and annual periods ending after June 15, 2009. The Company does not expect the adoption of this FSP to have a material impact on the Company's consolidated financial statements.

2. Change in Accounting Principle:

Effective January 4, 2009, the Company implemented a change in accounting principle for costs included in inventory. Under the Company's historical accounting policy, freight and other handling costs (collectively "handling costs") associated with moving merchandise inventories from our distribution centers to our retail stores and handling costs associated with moving our merchandise inventories from our vendors to our distribution centers were capitalized as inventory and expensed in cost of sales as inventory is sold. However, handling costs associated with moving merchandise inventories from our LAWs and PDQs to our retail stores after a customer had special-ordered the merchandise were expensed as incurred in SG&A.

The change relates to capitalizing handling costs associated with moving merchandise inventories from our LAWs and PDQs to our retail stores, which are now treated as inventory product costs. Such costs are includable in inventory and expensed in cost of sales as inventory is sold because it relates to the acquisition of goods for resale by the Company. The Company has determined that it is preferable to capitalize such handling costs into inventory because it better represents the costs incurred to prepare inventory for sale to the customer and it is consistent with the Company's treatment of other handling costs associated with moving merchandise inventories from our distribution centers to our retail stores.

In accordance with SFAS No. 154, "Accounting Changes and Error Corrections," the change in accounting principle has been retrospectively applied to all prior periods presented herein related to cost of sales and SG&A. However, because the inventory transferred is typically at the retail store for only one or two days until customer pick-up, the current and historical impact of this change on the consolidated balance sheets, consolidated net income, earnings per share, and consolidated statements of cash flows is not material and, as a result, Inventories, net was not adjusted. Accordingly, there is no impact on any financial statement line items other than cost of sales and SG&A, and there was no cumulative effect of the change in accounting principle on retained earnings as of December 30, 2007, the beginning of the earliest period presented. The tables below represent the impact of the accounting change on the current period and on previously reported amounts:

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Sixteen week period ended April 25, 2009	Prior to Effect of Accounting Change	Adjustments	As Reported
Cost of sales, including purchasing and warehousing costs	\$ 842,812	\$ 18,836	\$ 861,648
Gross profit	840,824	(18,836)	821,988
Selling, general and administrative expenses	683,242	(18,836)	664,406
Sixteen week period ended April 19, 2008	As Previously Reported	Adjustments	As Adjusted
Cost of sales, including purchasing and warehousing costs	\$ 782,681	\$ 18,597	\$ 801,278
Gross profit	743,451	(18,597)	724,854
Selling, general and administrative expenses	599,173	(18,597)	580,576

3. Store Closures and Impairment:

During the sixteen weeks ended April 25, 2009, the Company identified 36 stores to close as part of its store divestiture plan. For fiscal 2009, the Company currently expects to divest a total of approximately 40 to 55 stores in addition to its normal annual store closings. This plan consisted of a review of operating stores to identify locations for potential closing based on both financial and operating factors. These factors included cash flow, profitability, strategic market importance, store full potential and current lease rates. The store closures under the store divestiture plan are exclusive of approximately 15 stores that will also be closed throughout 2009 as part of the Company's routine review and closure of underperforming stores. During the sixteen weeks ended April 25, 2009, the Company closed 9 stores, including 4 stores under the store divestiture plan.

During the first quarter of 2009, the Company recognized \$5,795 of total expense associated with the 36 stores identified to be closed. This expense included impairment charges of \$4,259 and closed store exit costs of \$1,536. The closed store exit costs primarily included the establishment of the liability for future lease obligations as well as severance benefits in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." Closed store liabilities primarily include the present value of the remaining lease obligations and management's estimate of future costs of insurance, property tax and common area maintenance (reduced by the present value of estimated revenues from subleases and lease buyouts). New provisions are established by a charge to selling, general and administrative costs in the accompanying consolidated statement of operations at the time the facilities actually close.

A summary of the Company's closed store liabilities, which are recorded in accrued expenses (current portion) and long-term liabilities (long-term portion) in the accompanying condensed consolidated balance sheet, are presented in the following table:

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	Lease Obligations	Severance and Other Exit	Total
Closed Store Liabilities, January 3, 2009	\$ 5,067	\$ -	\$ 5,067
Reserves established	1,498	91	1,589
Change in estimates	(602)	-	(602)
Reserves utilized	(837)	(91)	(928)
Closed Store Liabilities, April 25, 2009	\$ 5,126	\$ -	\$ 5,126

The Company's ending closed store liabilities at April 25, 2009, include \$1,408 related to the store divestiture plan.

The impairment charges were recognized in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" and included in SG&A in the accompanying condensed consolidated statement of operations. This charge primarily consisted of the impairment of store assets contained in leased store locations where the carrying amount of those assets is not recoverable. Also included in the total impairment charge for the quarter is the \$923 write-down of one owned store location that was identified to be closed in connection with the store divestiture plan. At April 25, 2009, the fair value of the store location is \$775, which will be held for sale and therefore will be reclassified to Assets Held for Sale in the Company's condensed consolidated balance sheet when the store closes subsequent to April 25, 2009.

4. Inventories, net:

Merchandise Inventory

Inventories are stated at the lower of cost or market. The Company uses the LIFO method of accounting for approximately 95% of inventories at both April 25, 2009 and January 3, 2009. Under LIFO, the Company's cost of sales reflects the costs of the most recently purchased inventories, while the inventory carrying balance represents the costs for inventories purchased in fiscal 2009 and prior years. Historically, the Company's overall costs to acquire inventory for the same or similar products have been decreasing due to the Company's significant growth. As a result of utilizing LIFO, the Company recorded a reduction to cost of sales of \$10,156 and \$7,409 for the sixteen weeks ended April 25, 2009 and April 19, 2008, respectively.

An actual valuation of inventory under the LIFO method is performed by the Company at the end of each fiscal year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations must be based on management's estimates of expected fiscal year-end inventory levels and costs.

Product Cores

The remaining inventories are comprised of product cores, which consist of the non-consumable portion of certain parts and batteries, which are valued under the first-in, first-out ("FIFO") method. Product cores are included as part of the Company's merchandise costs that are either passed on to the customer or returned to the vendor. Since product cores are not subject to frequent cost changes like the Company's other merchandise inventory, there is no material

difference when applying either the LIFO or FIFO valuation method.

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Inventory Overhead Costs

The Company capitalizes certain purchasing and warehousing costs into inventory. Purchasing and warehousing costs included in inventory, at FIFO, at April 25, 2009 and January 3, 2009, were \$104,953 and \$104,594, respectively.

Inventory Balances and Inventory Reserves

Inventory balances at April 25, 2009 and January 3, 2009 were as follows:

	April 25, 2009	January 3, 2009
Inventories at FIFO, net	\$ 1,589,963	\$ 1,541,871
Adjustments to state inventories at LIFO	91,373	81,217
Inventories at LIFO, net	\$ 1,681,336	\$ 1,623,088

Inventory quantities are tracked through a perpetual inventory system. The Company uses a cycle counting program in all distribution centers and PDQs® to ensure the accuracy of the perpetual inventory quantities of both merchandise and product core inventory. For our retail stores, the Company began completing physical inventories during its third quarter of fiscal 2008 in addition to cycle counting to ensure the accuracy of the perpetual inventory quantities of both merchandise and core inventory in these locations. The Company establishes reserves for estimated shrink based on results of completed physical inventories, actual results from recent cycle counts and historical results from the Company's cycle counting program.

The Company establishes reserves for estimated shrink based on historical accuracy and effectiveness of the cycle counting program. The Company also establishes reserves for potentially excess and obsolete inventories based on (i) current inventory levels, (ii) the historical analysis of product sales and (iii) current market conditions. The Company provides reserves when less than full credit is expected from a vendor or when liquidating product will result in retail prices below recorded costs. The Company's reserves against inventory for these matters were \$59,977 and \$62,898 at April 25, 2009 and January 3, 2009, respectively.

5. Goodwill and Intangible Assets:**Goodwill**

The following table reflects the carrying amount of goodwill pertaining to the Company's two segments, and the changes in goodwill carrying amounts, for the sixteen weeks ended April 25, 2009:

	AAP Segment	AI Segment	Total
Balance at January 3, 2009	\$ 16,093	\$ 18,510	\$ 34,603
Fiscal 2009 activity	-	-	-
Balance at April 25, 2009	\$ 16,093	\$ 18,510	\$ 34,603

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Intangible Assets Other Than Goodwill

The carrying amount and accumulated amortization of acquired intangible assets as of April 25, 2009 and January 3, 2009 are comprised of the following:

	Acquired intangible assets			Intangible Assets, net
	Subject to Amortization Customer Relationships	Other	Not Subject to Amortization Trademark and Tradenames	
Gross:				
Gross carrying amount at January 3, 2009	\$ 9,800	\$ 885	\$ 20,550	\$ 31,235
Additions	-	-	-	-
Gross carrying amount at April 25, 2009	\$ 9,800	\$ 885	\$ 20,550	\$ 31,235
Net:				
Net book value at January 3, 2009	\$ 6,566	\$ 451	\$ 20,550	\$ 27,567
Additions	-	-	-	-
2009 amortization	(335)	(37)	-	(372)
Net book value at April 25, 2009	\$ 6,231	\$ 414	\$ 20,550	\$ 27,195

Future Amortization Expense

The table below shows expected amortization expense for the next five years for acquired intangible assets recorded as of April 25, 2009:

Fiscal Year		
Remainder of 2009	\$	770
2010		1,059
2011		967
2012		967
2013		967

6. Receivables, net:

Receivables consist of the following:

	April 25, 2009	January 3, 2009
Trade	\$ 19,817	\$ 17,843
Vendor	69,801	81,265
Other	3,666	3,125
Total receivables	93,284	102,233
Less: Allowance for doubtful accounts	(5,765)	(5,030)
Receivables, net	87,519	97,203

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7. Derivative Instruments and Hedging Activities:

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities." SFAS No. 161 amends and expands the previous disclosure requirements of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," to provide more qualitative and quantitative information on how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. The Company adopted SFAS No. 161 as of January 4, 2009 on a prospective basis; accordingly, disclosures related to interim periods prior to the date of adoption have not been presented. The adoption had no impact on the Company's consolidated financial statements other than the additional disclosures.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking hedge transactions. The Company's derivatives that are designated as hedging instruments under SFAS No. 133 currently consist solely of interest rate swaps. Interest rate swaps are entered into to limit cash flow risk associated with the Company's floating-rate borrowings. The Company also utilizes forward commodity contracts to manage the risk of fluctuating fuel prices. The Company has elected to apply the normal purchase election allowed under SFAS No. 133 and therefore does not account for these contracts at fair value.

All derivative instruments designated as hedging instruments under SFAS No. 133 are classified as fair value, cash flow or net investment hedges. All derivatives (including those not designated as hedging instruments under SFAS No. 133) are recognized on the consolidated balance sheet at fair value and classified based on the instruments' maturity date. Changes in the fair value measurements of the effective portion of the derivative instruments designated as hedging instruments are reflected as adjustments to other comprehensive income, or OCI, with the remaining changes recorded through current earnings.

The Company seeks to manage and mitigate cash flow risk on its variable rate debt via receive variable/pay fixed interest rate swaps. Current outstanding interest rate swaps have fixed the Company's interest rate on an aggregate of \$275,000 of hedged debt at rates ranging from 4.01% to 4.98%. The Company elects to receive interest payments based on the 90-day adjusted LIBOR interest rate and has the intent and ability to continue to use this rate on its hedged borrowings. Accordingly, as allowed under Derivative Implementation Group Issue No. G7, "Cash Flow Hedges: Measuring the Ineffectiveness of a Cash Flow Hedge under Paragraph 30(b) When the Shortcut Method Is Not Applied," the Company does not recognize any ineffectiveness on the swaps. All of the Company's interest rate swaps expire in October 2011.

The fair value of these interest rate swaps are determined based on a forward yield curve and the contracted interest rates stated in the interest rate swap agreements. The fair value of the Company's interest rate swaps at April 25, 2009 and January 3, 2009, respectively, was an unrecognized loss of \$20,444 and \$21,979, which is reflected in Accumulated other comprehensive income (loss). Any amounts received or paid under these hedges are recorded in the statement of operations during the accounting period the interest on the hedged debt is paid. Based on the estimated current and future fair values of the hedge arrangements at April 25, 2009, the Company estimates amounts currently included in Accumulated other comprehensive income (loss) pertaining to the interest rate swaps that will be

reclassified and recorded in the statement of earnings in the next 12 months will consist of a net loss of \$9,458.

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The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the balance sheet as April 25, 2009:

		Liability Derivatives	
		As of April 25, 2009	
		Balance Sheet	Fair Value
		Location	
Derivatives designated as hedging instruments under SFAS 133:			
Interest rate swaps	Accrued expenses	\$	9,458
	Other long-term		
Interest rate swaps	liabilities		10,986
		\$	20,444

The table below presents the effect of the Company's derivative financial instruments on the statement of operations for the sixteen weeks ended April 25, 2009:

	Amount of		Amount of	Location of Gain or (Loss) Recognized in	Amount of
	Gain or (Loss) Recognized	Location of Gain or (Loss) Recognized			Gain or (Loss) Recognized in
Derivatives in SFAS 133 Cash Flow Hedging Relationships	in OCI on Derivative (Effective Portion), net of tax	from Accumulated OCI into Income (Effective Portion)	Reclassified from Accumulated OCI into Income (Effective Portion)	Income on Derivative and Amount Excluded from Effectiveness Testing)	Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Interest rate swaps	\$ 932	Interest expense	\$ (932)	Interest expense	\$ -

8. Fair Value Measurements:

The Company adopted SFAS No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value and expands disclosure requirements. SFAS No. 157 defines fair value as the price that would be received from the sale of an asset, or paid to transfer a liability (an exit price), on the measurement date in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants (with no compulsion to buy or sell). In February 2008, the FASB deferred the effective date of SFAS No. 157 for one year for certain non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (i.e., at least annually). The Company adopted the required provisions of SFAS No. 157 related to derivatives as of December 30, 2007 and adopted the remaining required provisions for non-financial assets and liabilities as of January 4, 2009. The effect of adopting this standard was not

significant in either period.

The Company's financial assets and liabilities measured at fair value are grouped in three levels. The levels prioritize the inputs used to measure the fair value of these assets or liabilities. These levels are:

Level 1 – Unadjusted quoted prices that are available in active markets for identical assets or liabilities at the measurement date.

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Level 2 – Inputs other than quoted prices that are observable for assets and liabilities at the measurement date, either directly or indirectly. These inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are less active, inputs other than quoted prices that are observable for the asset or liability or corroborated by other observable market data.

Level 3 – Unobservable inputs for assets or liabilities that are not able to be corroborated by observable market data and reflect the use of a reporting entity's own assumptions. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The fair value hierarchy requires the use of observable market data when available. In instances where inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

The following table sets forth our financial liabilities that were measured at fair value on a recurring basis during first quarter 2009, including at April 25, 2009:

		Fair Value Measurements at Reporting Date Using		
		Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs
	Fair Value at April 25, 2009			
Interest rate swaps	\$ 20,444	\$ -	\$ 20,444	\$ -

The fair value of these interest rate swaps as of April 25, 2009, was an unrecognized loss of \$20,444. The fair value of the Company's interest rate swaps is mainly based on observable interest rate yield curves for similar instruments.

Non-Financial Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (e.g., when there is evidence of impairment). At April 25, 2009, the Company had no significant non-financial assets or liabilities that had been adjusted to fair value subsequent to initial recognition. A majority of the Company's store assets that were subject to impairment in connection with its store divestiture plan had no remaining value and, as a result, were not subject to the fair value disclosure requirements.

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9. Long-term Debt:

Long-term debt consists of the following:

	April 25, 2009	January 3, 2009
Revolving facility at variable interest rates (1.94% and 4.81% at April 25, 2009 and January 3, 2009, respectively) due October 2011	\$ 75,000	\$ 251,500
Term loan at variable interest rates (2.22% and 3.02% at April 25, 2009 and January 3, 2009, respectively) due October 2011	200,000	200,000
Other	5,104	4,664
	280,104	456,164
Less: Current portion of long-term debt	(1,094)	(1,003)
Long-term debt, excluding current portion	\$ 279,010	\$ 455,161

Bank Debt

The Company has a \$750,000 unsecured five-year revolving credit facility with the Company's wholly-owned subsidiary, Advance Stores Company, Incorporated, or Stores, serving as the borrower. The revolving credit facility also provides for the issuance of letters of credit with a sub limit of \$300,000, and swingline loans in an amount not to exceed \$50,000. The Company may request, subject to agreement by one or more lenders, that the total revolving commitment be increased by an amount not exceeding \$250,000 (up to a total commitment of \$1,000,000) during the term of the credit agreement. Voluntary prepayments and voluntary reductions of the revolving balance are permitted in whole or in part, at the Company's option, in minimum principal amounts as specified in the revolving credit facility. The revolving credit facility terminates on October 5, 2011.

As of April 25, 2009, the Company had \$75,000 outstanding under its revolving credit facility, and letters of credit outstanding of \$89,179, which reduced the availability under the revolving credit facility to \$585,821. (The letters of credit generally have a term of one year or less.) A commitment fee is charged on the unused portion of the revolver, payable in arrears. The current commitment fee rate is 0.150% per annum.

In addition to the revolving credit facility, the Company has borrowed \$200,000 under its unsecured four-year term loan as of April 25, 2009. The Company entered into the term loan with Stores serving as borrower. The proceeds from the term loan were used to repurchase shares of the Company's common stock under its stock repurchase program during fiscal 2008. The term loan terminates on October 5, 2011.

The interest rate on borrowings under the revolving credit facility is based, at the Company's option, on an adjusted LIBOR rate, plus a margin, or an alternate base rate, plus a margin. The current margin is 0.75% and 0.0% per annum for the adjusted LIBOR and alternate base rate borrowings, respectively. The Company has elected to use the 90-day adjusted LIBOR rate and has the ability and intent to continue to use this rate on its hedged borrowings. Under the terms of the revolving credit facility, the interest rate and commitment fee are based on the Company's credit rating.

The interest rate on the term loan is based, at the Company's option, on an adjusted LIBOR rate, plus a margin, or an alternate base rate, plus a margin. The current margin is 1.0% and 0.0% per annum for the adjusted

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LIBOR and alternate base rate borrowings, respectively. The Company has elected to use the 90-day adjusted LIBOR rate and has the ability and intent to continue to use this rate on its hedged borrowings. Under the terms of the term loan, the interest rate is based on the Company's credit rating.

Other

As of April 25, 2009, the Company had \$5,104 outstanding under an economic development note and other financing arrangements.

Guarantees and Covenants

The term loan and revolving credit facility are fully and unconditionally guaranteed by Advance Auto Parts, Inc. The Company's debt agreements collectively contain covenants restricting its ability to, among other things: (1) create, incur or assume additional debt (including hedging arrangements), (2) incur liens or engage in sale-leaseback transactions, (3) make loans and investments, (4) guarantee obligations, (5) engage in certain mergers, acquisitions and asset sales, (6) change the nature of the Company's business and the business conducted by its subsidiaries and (7) change the Company's status as a holding company. The Company is also required to comply with financial covenants with respect to a maximum leverage ratio and a minimum consolidated coverage ratio. The Company was in compliance with these covenants at April 25, 2009 and January 3, 2009. The Company's term loan and revolving credit facility also provide for customary events of default, covenant defaults and cross-defaults to its other material indebtedness.

10. Warranty Liabilities:

The following table presents changes in the Company's warranty reserves:

	April 25, 2009 (16 weeks ended)	January 3, 2009 (53 weeks ended)
Warranty reserve, beginning of period	\$ 28,662	\$ 17,757
Additions to warranty reserves	10,431	38,459
Reserves utilized	(9,092)	(27,554)
Warranty reserve, end of period	\$ 30,001	\$ 28,662

11. Stock Repurchase Program:

During the sixteen weeks ended April 25, 2009, no shares were repurchased. During the sixteen weeks ended April 19, 2008, the Company repurchased 4,563 shares of common stock at an aggregate cost of \$155,350, or an average price of \$34.04 per share. Additionally, the Company settled \$2,959 on shares repurchased prior to the end of fiscal 2007. As of April 25, 2009, the Company has \$188,911 remaining under its \$250 million stock repurchase program, excluding related expenses.

12. Earnings per Share:

The Company computes earnings per share in accordance with SFAS No. 128, "Earnings Per Share." Basic earnings per share is computed by dividing net income applicable to common shares by the weighted average number of shares of common stock outstanding during the period. On January 4, 2009, the Company adopted FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating

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Securities” (“FSP EITF 03-6-1”). FSP EITF 03-6-1 addresses whether instruments granted in share-based payment awards are participating securities prior to vesting, and therefore, need to be included in the earnings allocation when computing earnings per share under the two-class method as described in SFAS No. 128. In accordance with FSP EITF 03-6-1, unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. Upon adoption, all prior-period earnings per share data presented were adjusted retrospectively with no material impact.

Certain of the Company’s shares granted to employees in the form of restricted stock are considered participating securities which require the use of the two-class method for the computation of basic and diluted earnings per share. For the sixteen week periods ended April 25, 2009 and April 19, 2008, earnings of \$498 and \$236, respectively, were allocated to the participating securities.

Diluted earnings per share of common stock reflects the weighted-average number of shares of common stock outstanding (subject to the two class method effective January 4, 2009), outstanding deferred stock units and the impact of outstanding stock options, stock appreciation rights and certain of the Company’s restricted stock (collectively “share-based awards”). Diluted earnings per share is calculated by including the effect of dilutive securities. Share-based awards to purchase approximately 2,655 and 5,415 shares of common stock that had an exercise price in excess of the average market price of the common stock during the sixteen week periods ended April 25, 2009 and April 19, 2008, respectively, were not included in the calculation of diluted earnings per share because they are anti-dilutive .

The following table illustrates the computation of basic and diluted earnings per share for the sixteen week periods ended April 25, 2009 and April 19, 2008, respectively:

	Sixteen Weeks Ended	
	April 25, 2009	April 19, 2008
Numerator		
Net income applicable to common shares	\$ 93,585	\$ 82,086
Participating securities' share in earnings	(498)	(236)
Net income applicable to common shares	93,087	81,850
Denominator		
Basic weighted average common shares	94,473	94,987
Dilutive impact of share based awards	416	620
Diluted weighted average common shares	94,889	95,607
Basic earnings per common share		
Net income applicable to common stockholders	\$ 0.99	\$ 0.86
Diluted earnings per common share		
Net income applicable to common stockholders	\$ 0.98	\$ 0.86

13. Postretirement Plan:

The Company provides certain health and life insurance benefits for eligible retired Team Members through a postretirement plan, or Plan. These benefits are subject to deductibles, co-payment provisions and other limitations. The Plan has no assets and is funded on a cash basis as benefits are paid. The Company's postretirement liability is calculated annually by a third-party actuary. The discount rate utilized at January 3, 2009 was 6.25%, and remained

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unchanged through the sixteen weeks ended April 25, 2009. The Company expects fiscal 2009 plan contributions to completely offset benefits paid, consistent with fiscal 2008.

The Company's net periodic postretirement benefit cost includes the amortization of a reduction in unrecognized prior service costs as a result of plan amendment in fiscal 2004. The components of net periodic postretirement benefit cost for the sixteen weeks ended April 25, 2009, and April 19, 2008, respectively, are as follows:

	Sixteen Weeks Ended	
	April 25, 2009	April 19, 2008
Interest cost	\$ 140	\$ 153
Amortization of negative prior service cost	(179)	(179)
Amortization of unrecognized net gain	(29)	(4)
Net periodic postretirement benefit cost	\$ (68)	\$ (30)

14. Comprehensive Income:

The Company includes in comprehensive income the changes in fair value of the Company's interest rate swaps and changes in net unrecognized other postretirement benefit costs.

Comprehensive income for the sixteen weeks ended April 25, 2009 and April 19, 2008 is as follows:

	Sixteen Weeks Ended	
	April 25, 2009	April 19, 2008
Net income	\$ 93,585	\$ 82,086
Unrealized gain (loss) on hedge arrangements, net of tax	932	(2,971)
Changes in net unrecognized other postretirement benefit cost, net of tax	(127)	(111)
Comprehensive income	\$ 94,390	\$ 79,004

15. Segment and Related Information:

The Company has the following two reportable segments: Advance Auto Parts, or AAP, and Autopart International, or AI. The AAP segment is comprised of store operations within the United States, Puerto Rico and the Virgin Islands which operate under the trade names "Advance Auto Parts," "Advance Discount Auto Parts" and "Western Auto." These

stores offer a broad selection of brand name and proprietary automotive replacement parts, accessories and maintenance items for domestic and imported cars and light trucks.

The AI segment consists solely of the operations of Autopart International, which operates as an independent, wholly-owned subsidiary. AI's business serves the growing commercial market in addition to warehouse distributors and jobbers located throughout the Northeastern region of the United States.

The Company evaluates each of its segment's financial performance-based on net sales and operating profit for purposes of allocating resources and assessing performance. The accounting policies of the reportable segments

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are the same as those described in the summary of significant accounting policies in Note 1.

The following table summarizes financial information for each of the Company's business segments for the sixteen weeks ended April 25, 2009 and April 19, 2008, respectively.

	Sixteen Week Periods Ended	
	April 25, 2009	April 19, 2008
Net sales		
AAP	\$ 1,627,817	\$ 1,481,498
AI	57,813	45,934
Eliminations	(1,994)	(1,300)
Total net sales	\$ 1,683,636	\$ 1,526,132
Income (loss) before provision (benefit) for income taxes		
AAP	\$ 148,508	\$ 132,094
AI	1,359	(113)
Total income (loss) before provision (benefit) for income taxes	\$ 149,867	\$ 131,981
Provision (benefit) for income taxes		
AAP	\$ 55,789	\$ 49,943
AI	493	(48)
Total provision (benefit) for income taxes	\$ 56,282	\$ 49,895
Segment assets		
AAP	\$ 2,833,437	\$ 2,717,154
AI	168,291	155,973
Total segment assets	\$ 3,001,728	\$ 2,873,127

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and the notes to those statements that appear elsewhere in this report. Our first quarter consists of 16 weeks divided into four equal periods. Our remaining three quarters consist of 12 weeks with each quarter divided into three equal periods. Fiscal 2008 was an exception to this rule with the fourth quarter containing 13 weeks due to our 53-week fiscal year.

Certain statements in this report are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are usually identified by the use of words such as "anticipate," "believe," "could," "estimate," "expect," "forecast," "intend," "likely," "may," "plan," "position," "possible," "potential," "probable," "project," "projection," "should," "strategy," "will," or similar expressions. We intend for any forward-looking statements to be covered by, and we claim the protection under, the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

These forward-looking statements are based upon assessments and assumptions of management in light of historical results and trends, current conditions and potential future developments that often involve judgment, estimates, assumptions and projections. Forward-looking statements reflect current views about our plans, strategies and prospects, which are based on information currently available.

Although we believe that our plans, intentions and expectations as reflected in or suggested by any forward-looking statements are reasonable, we do not guarantee or give assurance that such plans, intentions or expectations will be achieved. Actual results may differ materially from our anticipated results described or implied in our forward-looking statements, and such differences may be due to a variety of factors. Our business could also be affected by additional factors that are presently unknown to us or that we currently believe to be immaterial to our business.

Listed below and discussed in our Annual Report on Form 10-K for the year ended January 3, 2009 (filed with the SEC on March 4, 2009), or 2008 Form 10-K, are some important risks, uncertainties and contingencies which could cause our actual results, performance or achievements to be materially different from any forward-looking statements made or implied in this report. These include, but are not limited to, the following:

- a decrease in demand for our products;
- deterioration in general economic conditions, including unemployment, inflation, consumer debt levels, energy costs and unavailability of credit leading to reduced consumer spending on discretionary items;
- our ability to develop and implement business strategies and achieve desired goals;
- our ability to expand our business, including locating available and suitable real estate for new store locations and the integration of any acquired businesses;
- competitive pricing and other competitive pressures;
- our overall credit rating, which impacts our debt interest rate and our ability to borrow additional funds to finance our operations;
- deteriorating and uncertain credit markets could negatively impact our merchandise vendors, as well as our ability to secure additional capital at favorable (or at least feasible) terms in the future;
- bankruptcies of auto manufacturers, which will likely have an impact on the operations and cash flows of our auto parts suppliers;
- our relationships with our vendors;
- our ability to attract and retain qualified Team Members;

the occurrence of natural disasters and/or extended periods of unfavorable weather;
our ability to obtain affordable insurance against the financial impacts of natural disasters and other losses;

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high fuel costs, which impacts our cost to operate and the consumer's ability to shop in our stores; regulatory and legal risks, such as environmental or OSHA risks, including being named as a defendant in administrative investigations or litigation, and the incurrence of legal fees and costs, the payment of fines or the payment of sums to settle litigation cases or administrative investigations or proceedings; adherence to the restrictions and covenants imposed under our revolving and term loan facilities; and acts of terrorism.

We assume no obligations to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. In evaluating forward-looking statements, you should consider these risks and uncertainties, together with the other risks described from time to time in our other reports and documents filed with the Securities and Exchange Commission, or SEC, and you should not place undue reliance on those statements.

Introduction

We primarily operate within the United States automotive aftermarket industry, which includes replacement parts (excluding tires), accessories, maintenance items, batteries and automotive chemicals for cars and light trucks (pickup trucks, vans, minivans and sport utility vehicles). We currently are the second largest specialty retailer of automotive parts, accessories and maintenance items to "do-it-yourself," or DIY, and Commercial customers in the United States, based on store count and sales. At April 25, 2009, we operated a total of 3,405 stores.

We operate in two reportable segments: Advance Auto Parts, or AAP, and Autopart International, Inc., or AI. The AAP segment is comprised of our store operations within the United States, Puerto Rico and the Virgin Islands which operate under the trade names "Advance Auto Parts," "Advance Discount Auto Parts" and "Western Auto." At April 25, 2009, we operated 3,270 stores in the AAP segment, of which 3,242 stores operated under the trade names "Advance Auto Parts" and "Advance Discount Auto Parts" throughout 40 states in the Northeastern, Southeastern and Midwestern regions of the United States. These stores offer automotive replacement parts, accessories and maintenance items. In addition, we operated 28 stores offshore under the "Western Auto" and "Advance Auto Parts" trade names, located in Puerto Rico and the Virgin Islands.

The AI segment consists solely of the operations of AI, which operates as an independent, wholly-owned subsidiary. AI's business primarily serves the Commercial market from its store locations. In addition, its North American Sales Division services warehouse distributors and jobbers throughout North America. At April 25, 2009, we operated 135 stores in the AI segment under the "Autopart International" trade name. For additional information regarding our segments, see Note 15, Segments and Related Information, of the Notes to Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

Management Overview

During our first quarter of fiscal 2009, we experienced better than expected financial results primarily due to significant top-line sales growth resulting in earnings per diluted share of \$0.98 compared to \$0.86 during first quarter last year. Our earnings per diluted share of \$0.98 included the impact of a \$0.04 charge related to expenses associated with our store divestiture plan. We also continued to make strategic investments in our four key turnaround strategies and paid down a significant portion of our bank debt.

Change in Accounting Principle

Effective January 4, 2009, we made a change in accounting principle for freight and other handling costs associated with transferring merchandise from Local Area Warehouses, or LAWs, and Parts Delivered Quickly warehouses, or

PDQs, to our retail stores from recording such costs as selling, general and administrative expenses, or SG&A, to recording such costs in cost of sales. This change, which had no impact to operating income or cash flows, more accurately reflects the nature of the expense.

We have retrospectively adjusted all comparable periods related to cost of sales and SG&A. The net adjustment increasing cost of sales and decreasing SG&A for the quarter ended April 25, 2009 and April 19, 2008

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was \$18.8 million and \$18.6 million, respectively. As a result of the adjustment, gross profit, as percentage of sales, decreased from 49.9% to 48.8% and from 48.7% to 47.5% for the quarters ended April 25, 2009 and April 19, 2008, respectively. In addition, SG&A, as a percentage of sales, decreased from 40.6% to 39.5% and from 39.3% to 38.0% for the quarters ended April 25, 2009 and April 19, 2008, respectively. For additional information regarding this change, see Note 2, Change in Accounting Principle, of the Notes to Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

First Quarter Highlights

Highlights from our first quarter fiscal 2009 include:

Total sales during the first quarter increased 10.3% to \$1.68 billion as compared to the first quarter of fiscal 2008, driven by a comparable store sales increase of 8.2% and sales from the net addition of 114 new stores in the past twelve months. Our total comparable sales increase was comprised of an increase in Commercial sales of 17.5% and DIY sales of 4.4%.

Our gross profit rate increased 133 basis points as compared to the first quarter of fiscal 2008 primarily due to more effective pricing and better store execution.

Our SG&A rate increased 142 basis points as compared to the first quarter of fiscal 2008 and was driven primarily by higher incentive compensation, store divestiture expenses and continued strategic capability investments to improve our gross profit rate and accelerate the Commercial business as well as other benefits we expect to realize over a longer term.

We generated operating cash flow of \$292.7 million during the first quarter, an increase of 37% over the comparable period in fiscal 2008, which was primarily driven by higher earnings and a decrease in working capital. We used available operating cash to pay down \$176.5 million of outstanding debt on our revolving credit facility.

We identified 36 stores to close, four of which closed by April 25, 2009, as part of our store divestiture plan announced earlier in the year. For fiscal 2009, we currently expect to divest a total of approximately 40 to 55 stores that are strategically or financially delivering unacceptable results in addition to our normal annual store closings. During the sixteen weeks ended April 25, 2009, we recognized expense of \$5.8 million comprised of asset impairments and closed store exit costs in connection with the divestiture plan. Currently, we anticipate recognizing expenses of approximately \$0.15 to \$0.22 per diluted share for the entire year in connection with the closure of stores under the store divestiture plan. The majority of this expense is related to the estimated remaining lease obligations at the time of the anticipated closures.

Update on Turnaround Strategies

We continue to make significant investments in each of our key turnaround strategies with the ultimate focus on the customer and growth in our business. Although we realize our business is benefiting from the current economic crisis to some degree, we believe we are also experiencing improved results from the investments we have made over the last year. Updates from each of our four turnaround strategies are provided below.

Ø Commercial Acceleration

We experienced a 17.5% Commercial comparable store sales increase during the first quarter, our fifth consecutive quarter of double-digit growth. We believe our consistent growth in Commercial sales and market share is being driven in part by the investments we have made over the last year and continue to make under our Commercial Acceleration strategy. Specifically, our Commercial business has benefitted from the added parts and key brands, more parts professionals and an increase in delivery trucks and drivers. We continue to build a sales

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force with a focus on driving sales, including account managers who can reach commercial opportunities through either acquiring new commercial customers or increasing our share of existing customers' purchases.

Ø DIY Transformation

Our first quarter DIY comparable sales increase of 4.4% marks our first positive increase in twelve quarters. Positive comparable sales results were reported throughout a majority of our store chain. It is evident that our industry has realized improved DIY results during the first few months of 2009 from increased customer traffic as consumers are saving money by maintaining their existing vehicles rather than replacing them. We also have industry data that indicate we slightly increased our DIY market share during the first quarter. We believe we can continue to increase DIY sales through parts availability and customer service initiatives focused on converting customer needs to sales.

From a long-term perspective, we are striving to transform our DIY business into a sustainable opportunity regardless of the variability in the economy. We continue to build a capability that is best-in-class at understanding, managing and optimizing the experience of our customers. Through our DIY transformation, we intend to make Advance Auto Parts a distinctive and differentiated brand. Finally, we will utilize actionable insights from customer feedback in achieving this transformation as well as achieving more consistent company-wide execution through utilizing various Team Member initiatives under our Superior Experience strategy.

Our ability to achieve successful results in our Commercial Acceleration and DIY Transformation strategies is also dependent on our Availability Excellence and Superior Experience strategies.

Ø Availability Excellence

Our Availability Excellence strategy represents our commitment to enhance the breadth and depth of our parts availability in our stores, and the speed of our parts delivery, to better serve both our Commercial and DIY customers. We believe our Commercial and DIY sales results during the first quarter are partially due to the expanded product availability and custom mix initiatives rolled out over the last year. More recently, we have added two PDQ's and 21 LAW's to provide a wider assortment of parts for our customers.

As disclosed in our Form 10-K for the year ended January 3, 2009, we reviewed our inventory productivity and changed our inventory management approach for slow moving inventory. This change was intended to increase our inventory productivity by reducing the amount of slow moving inventory and utilizing vendor return privileges earlier in the life-cycle of our inventory which will allow us to add faster moving custom mix inventory. During our first quarter, we disposed of approximately \$6.5 million of the \$37.5 million of inventory identified and reserved in fiscal 2008 and will continue to dispose of the remainder throughout fiscal 2009. We continue to manage our inventory productivity by removing unproductive inventory from our store assortments through utilizing markdown strategies and our vendor return privileges. We expect to more effectively manage the growth in our inventory as compared to our sales growth. As of April 25, 2009, our inventory increased 3.9% over the ending balance from first quarter last year as compared to our sales growth of 10.3% during the first quarter. Excluding the impact of the inventory write-down, our inventory increased 5.8%.

We have also made progress in pricing and merchandising initiatives to improve gross margin. Our gross margin for the first quarter increased 133 basis points over the first quarter of last year. We are currently on track to implement a core merchandising system during the second half of fiscal 2009 and 2010 which we expect to help drive improved product category performance. Finally, we opened our Asia sourcing operation during the first quarter. We expect this direct importing program will provide for gross margin improvement and allow us to more quickly source products that our customers want and need.

Ø Superior Experience

Superior Experience is centered around our store operations and providing superior customer service. We have begun to evaluate our customer service through the measurement of Team Member engagement and customer satisfaction. We believe we will gain valuable information from these results which will drive improvement in our results in future quarters. We are also implementing various changes to improve store execution including the use of

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peer groups and changes in our incentive programs. We believe these initiatives will result in an improved level of proficiency and consistency in our store operations, better customer service and a higher level of profitability.

Industry

Challenging macroeconomic conditions continue with the unemployment rate at a 25-year high and consumer confidence near an all-time low. However, the automotive aftermarket industry will likely have an opportunity to benefit from the economic downturn because consumers are keeping their vehicles longer, which in turn increases the average age of vehicles and the need to repair and complete routine maintenance on those vehicles. Additionally, reductions in total miles driven over the last six quarters are likely to be short-term with miles driven increasing in the long-term due to the increasing number of vehicles on the road. Recent financial results from automotive aftermarket retailers suggest that the entire industry is benefiting from the economic downturn particularly in the DIY business.

We are pleased with our first quarter results but recognize that we are still in the early stages of implementing our four key turnaround strategies. We are committed to making the necessary investments to help ensure our long-term success.

Consolidated Operating Results and Key Statistics and Metrics

The following table highlights certain consolidated operating results and key statistics and metrics for the sixteen weeks ended April 25, 2009, fiscal 2008 quarters and fiscal years ended January 3, 2009 and December 29, 2007. We will use these key statistics and metrics to measure the financial progress of our turnaround strategies.

	Q1 2009	Q4 2008 (1)	Q3 2008	Q2 2008	Q1 2008	FY 2008 (1)	FY 2007
Operating Results:							
Total net sales (in 000s)	\$1,683,636	\$1,192,388	\$1,187,952	\$1,235,783	\$1,526,132	\$5,142,255	\$4,844,404
Total commercial net sales (in 000s)	\$ 529,416	\$ 359,784	\$ 359,420	\$ 357,495	\$ 438,672	\$1,515,371	\$1,290,602
Comparable store net sales growth (2)	8.2%	3.0%	(0.1%)	2.9%	0.6%	1.5%	0.7%
DIY comparable store net sales growth (2)	4.4%	(1.1%)	(4.1%)	(0.8%)	(3.0%)	(2.3%)	(1.1%)
Commercial comparable store net sales growth (2)	17.5%	13.7%	10.8%	13.5%	10.6%	12.1%	6.2%
Gross profit (3)(4)	48.8%	44.1%	47.3%	47.4%	47.5%	46.7%	46.6%
SG&A (3)	39.5%	40.2%	39.3%	37.1%	38.0%	38.6%	38.0%
Operating profit (5)	9.4%	3.9%	8.1%	10.4%	9.5%	8.1%	8.6%
Diluted earnings per share (6)	\$ 0.98	\$ 0.26	\$ 0.59	\$ 0.79	\$ 0.86	\$ 2.50	\$ 2.28

Key Statistics and Metrics:

Number of stores, end of period	3,405	3,368	3,352	3,325	3,291	3,368	3,261
Total store square footage, end of period (in 000s)	24,918	24,711	24,627	24,431	24,212	24,711	23,982

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Total Team Members, end of period	49,265	47,853	47,886	47,050	45,174	47,582	44,141
Average net sales per square foot (7)(8)	\$ 212	\$ 211	\$ 207	\$ 207	\$ 207	\$ 211	\$ 207
Operating income per Team Member (in 000s) (7)(9)	\$ 9.07	\$ 9.02	\$ 9.25	\$ 9.42	\$ 9.45	\$ 9.02	\$ 9.40
SG&A expenses per store (in 000s) (3)(7)(10)	\$ 618	\$ 599	\$ 584	\$ 582	\$ 580	\$ 599	\$ 581
Gross margin return on inventory (3)(7)(11)	\$ 3.71	\$ 3.47	\$ 3.46	\$ 3.54	\$ 3.42	\$ 3.47	\$ 3.29

- (1) Our fourth quarter of fiscal year 2008 and fiscal year 2008 included 13 weeks and 53 weeks, respectively.
- (2) Comparable store sales is calculated based on the change in net sales starting once a store has been open for 13 complete accounting periods (each period represents four weeks). Relocations are included in comparable store sales from the original date of opening. Four quarter 2008 and fiscal 2008 comparable store sales exclude sales from the 13th week and 53rd week, respectively.
- (3) Effective first quarter 2009, the Company implemented a change in accounting principle for costs included in inventory. Accordingly, the Company has retrospectively applied the change in accounting principle to all prior periods presented herein related to cost of sales and SG&A.
- (4) Excluding the gross profit impact of the 53rd week of fiscal 2008 of approximately \$44.1 million and a \$37.5

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million non-cash obsolete inventory write-down in the fourth quarter of fiscal 2008, gross profit was 47.0% and 47.3% for the fourth quarter and fiscal year of 2008, respectively.

- (5) Excluding the operating income impact of the 53rd week of fiscal 2008 of approximately \$15.8 million and a \$37.5 million non-cash obsolete inventory write-down in the fourth quarter of fiscal 2008, operating profit was 6.2% and 8.6% for the fourth quarter and fiscal year of 2008, respectively.
- (6) Excluding the net income impact of the 53rd week of fiscal 2008 of approximately \$9.6 million and a \$23.7 million non-cash obsolete inventory write-down in the fourth quarter of fiscal 2008, diluted earnings per share was \$0.41 and \$2.65 for the fourth quarter and fiscal year of 2008, respectively.
- (7) These financial metrics presented for each quarter are calculated on an annual basis and accordingly reflect the last four fiscal quarters completed.
- (8) Average net sales per square foot is calculated as net sales divided by the average of the beginning and ending total store square footage for the respective period. Excluding the net sales impact of the 53rd week of fiscal 2008 of approximately \$89.0 million, average net sales per square foot in the first quarter of fiscal 2009 and fourth quarter and fiscal year of 2008 were \$212 and \$208, respectively.
- (9) Operating income per Team Member is calculated as operating income divided by an average of beginning and ending number of team members. Operating income per team member in the first quarter of fiscal 2009 was \$9.65 excluding the impact of store divestitures for the first quarter of fiscal 2009 of approximately \$5.8 million, impact of the 53rd week of fiscal 2008 and inventory write-down in fiscal 2008. Operating income per Team Member for the fourth quarter and fiscal year of 2008 was \$9.49 excluding the impact of the 53rd week of fiscal 2008 and inventory write-down in fiscal 2008.
- (10) SG&A per store is calculated as total SG&A divided by the average of beginning and ending store count. SG&A expenses per store in first quarter fiscal 2009 were \$607 excluding the impact of store divestitures for the first quarter of fiscal 2009 of approximately \$5.8 million and impact of the 53rd week of fiscal 2008 of approximately \$28.4 million. SG&A expenses per store for the fourth quarter and fiscal year of 2008 were \$590 excluding the impact of the 53rd week of fiscal 2008 of approximately \$28.4 million.
- (11) Gross margin return on inventory is calculated as gross profit divided by an average of beginning and ending inventory, net of accounts payable and financed vendor accounts payable. Excluding the impact of the 53rd week of fiscal 2008 and inventory write-down in the fourth quarter of fiscal 2008, gross margin return on inventory in first quarter fiscal 2009 and fourth quarter and fiscal year of 2008 was \$3.60 and \$3.37.

Store Development by Segment

AAP Segment

At April 25, 2009, we operated 3,270 AAP stores within the United States, Puerto Rico and the Virgin Islands. We operated 3,242 stores throughout 40 states in the Northeastern, Southeastern and Midwestern regions of the United States. These stores operated under the “Advance Auto Parts” trade name except for certain stores in the state of Florida, which operated under the “Advance Discount Auto Parts” trade name. These stores offer a broad selection of brand name and proprietary automotive replacement parts, accessories and maintenance items for domestic and imported cars and light trucks. In addition, we operated 28 stores under the “Western Auto” and “Advance Auto Parts” trade names, located Offshore.

The following table sets forth information about our AAP stores during the sixteen weeks ended April 25, 2009, including the number of new, closed and relocated stores and stores with Commercial programs that deliver products to our Commercial customers’ place of business. We lease approximately 81% of our AAP stores.

Sixteen
Weeks Ended
April 25, 2009

Number of stores, beginning of period	3,243
New stores	35
Closed stores	(8)
Number of stores, end of period	3,270
Relocated stores	2
Stores with commercial programs	2,790

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AI Segment

At April 25, 2009, we operated 135 AI stores in the Northeastern region of the United States under the “Autopart International” trade name. These stores offer a broad selection of brand name and proprietary automotive replacement parts, accessories and maintenance items for domestic and imported cars and light trucks, with a greater focus on imported parts. AI primarily serves the commercial market from its retail locations and additionally through a wholesale distribution network.

The following table sets forth information about our AI stores, including the number of new and closed stores, during the sixteen weeks ended April 25, 2009. We lease 100% of our AI stores.

	Sixteen Weeks Ended April 25, 2009
Number of stores, beginning of period	125
New stores	11
Closed stores	(1)
Number of stores, end of period	135
Relocated stores	1
Stores with commercial programs	135

As previously disclosed in our 2008 Form 10-K, we anticipate that we will add a total of approximately 75 AAP and 30 AI stores during 2009 primarily through new store openings.

Critical Accounting Policies

Our financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Our discussion and analysis of the financial condition and results of operations are based on these financial statements. The preparation of these financial statements requires the application of accounting policies in addition to certain estimates and judgments by our management. Our estimates and judgments are based on currently available information, historical results and other assumptions we believe are reasonable. Actual results could differ materially from these estimates. During the sixteen weeks ended April 25, 2009, we consistently applied the critical accounting policies discussed in our 2008 Form 10-K. For a complete discussion regarding these critical accounting policies, refer to the 2008 Form 10-K.

Components of Statement of Operations

Net Sales

Net sales consist primarily of merchandise sales from our retail store locations to both our DIY and Commercial customers. Our total sales growth is comprised of both comparable store sales and new store sales. We calculate comparable store sales based on the change in store sales starting once a store has been opened for 13 complete accounting periods (approximately one year). We include sales from relocated stores in comparable store sales from the original date of opening. The comparable periods have been adjusted accordingly. Fiscal 2008 comparable store sales exclude the effect of the 53rd week.

Cost of Sales

Our cost of sales consists of merchandise costs, net of incentives under vendor programs; inventory shrinkage, defective merchandise and warranty costs; and warehouse and distribution expenses. Gross profit as a percentage of net sales may be affected by (i) variations in our product mix, (ii) price changes in response to competitive factors and fluctuations in merchandise costs, (iii) vendor programs, (iv) inventory shrinkage, (v) defective merchandise and warranty costs and (v) warehouse and distribution costs. We seek to minimize

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fluctuations in merchandise costs and instability of supply by entering into long-term purchasing agreements, without minimum purchase volume requirements, when we believe it is advantageous. Our gross profit may not be comparable to those of our competitors due to differences in industry practice regarding the classification of certain costs.

See Note 1 to our condensed consolidated financial statements elsewhere in this report for additional discussion of these costs and Note 2 for additional discussion of a change in accounting principle for freight and other handling costs associated with transferring merchandise from LAWs and PDQs to our retail stores from recording such costs as SG&A to recording such costs in cost of sales.

Selling, General and Administrative Expenses

SG&A consists of store payroll, store occupancy (including rent and depreciation), advertising expenses, Commercial delivery expenses, other store expenses and general and administrative expenses, including salaries and related benefits of store support center Team Members, share-based compensation expense, store support center administrative office expenses, data processing, professional expenses, self-insurance costs and other related expenses. See Note 1 to our consolidated financial statements for additional discussion of these costs and Note 2 for additional discussion of a change in accounting principle.

Results of Operations

The following table sets forth certain of our operating data expressed as a percentage of net sales for the periods indicated.

	Sixteen Week Periods Ended (unaudited)	
	April 25, 2009	April 19, 2008
Net sales	100.0%	100.0%
Cost of sales, including purchasing and warehousing costs	51.2	52.5
Gross profit	48.8	47.5
Selling, general and administrative expenses	39.5	38.0
Operating income	9.4	9.5
Interest expense	(0.5)	(0.8)
Other (loss) income, net	(0.0)	0.0
Provision for income taxes	3.3	3.3
Net income	5.6%	5.4%

Sixteen Weeks Ended April 25, 2009 Compared to Sixteen Weeks Ended April 19, 2008

Net sales for the sixteen weeks ended April 25, 2009 were \$1,683.6 million, an increase of \$157.5 million, or 10.3%, as compared to net sales for the sixteen weeks ended April 19, 2008. The net sales increase was due to an increase in comparable store sales of 8.2% and sales from the 114 net new AAP and AI stores opened within the last four quarters. The impact of the calendar shift as a result of the 53rd week in fiscal 2008 added approximately 1% to our total comparable sales increase for the first quarter.

AAP produced net sales of \$1,627.8 million, an increase of \$146.3 million, or 9.9%, as compared to net sales for the sixteen weeks ended April 19, 2008. AAP's net sales increase was primarily driven by an 8.1% comparable store sales increase and sales from the 91 net new stores opened within the last four quarters. The AAP comparable store sales increase was driven by an increase in average ticket sales and overall customer traffic. AI produced net sales of \$57.8 million, an increase of \$11.9 million, or 25.9%, as compared to net sales for the sixteen

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weeks ended April 19, 2008. AI's sales increase was primarily driven by a 10.6% comparable store sales increase and sales from 23 net new stores opened within the last four quarters.

Gross profit for the sixteen weeks ended April 25, 2009 was \$822.0 million, or 48.8% of net sales, as compared to \$724.9 million, or 47.5% of net sales, for the sixteen weeks ended April 19, 2008, or an increase of 133 basis points. The increase in gross profit as a percentage of net sales was primarily driven by more effective pricing and better store execution. We believe we are beginning to realize benefits from the investments we have made over the past year and quarter in terms of both our Commercial and DIY pricing and merchandising capabilities. We believe our improved store execution is a result of a new incentive structure with a more focused emphasis on driving sales growth and gross margin improvement.

SG&A increased to \$664.4 million, or 39.5% of net sales, for the sixteen weeks ended April 25, 2009, from \$580.6 million, or 38.0% of net sales, for the sixteen weeks ended April 19, 2008, or an increase of 142 basis points. The increase in SG&A as a percentage of sales was primarily due to:

- higher incentive compensation driven by a structural change we made to our incentive program for 2009 which is now based on growth rather than a fixed budget;
- store divestiture expenses associated with our store divestiture plan, including impairment on store assets and closed store exit costs; and
- continued strategic capability investments, some of which are beginning to result in benefits such as improvement in the Company's gross profit rate and growth in Commercial sales, whereas some of the expected benefits will be realized longer term.

These increases were partially offset by occupancy and advertising expense leverage as a result of the Company's 8.2% comparable store sales increase.

Operating income for the sixteen weeks ended April 25, 2009 was \$157.6 million, or 9.4% of net sales, as compared to \$144.3 million, or 9.5% of net sales, for the sixteen weeks ended April 19, 2008, or a decrease of 9 basis points. This decrease in operating income, as a percentage of net sales, reflected higher selling, general and administrative expenses as previously discussed partially offset by an increase in gross profit. AAP produced operating income of \$156.3 million, or 9.6% of net sales, for the sixteen weeks ended April 25, 2009 as compared to \$144.4 million, or 9.7% of net sales, for the sixteen weeks ended April 19, 2008. AI generated operating income of \$1.3 million for the sixteen weeks ended April 25, 2009 as compared to an operating loss of \$0.1 million for the comparable period last year. AI's operating income increased primarily due to the positive sales results during the quarter and a decrease in payroll expense as a percentage of sales.

Interest expense for the sixteen weeks ended April 25, 2009 was \$7.6 million, or 0.5% of net sales, as compared to \$12.3 million, or 0.8% of net sales, for the sixteen weeks ended April 19, 2008. The decrease in interest expense as a percentage of sales is a primarily a result of lower outstanding borrowings as well as lower average borrowing rates during the sixteen weeks ended April 25, 2009 compared to the same period ended April 19, 2008.

Income tax expense for the sixteen weeks ended April 25, 2009 was \$56.3 million, as compared to \$49.9 million for the sixteen weeks ended April 19, 2008. Our effective income tax rate was 37.6% for the sixteen weeks ended April 25, 2009 compared to 37.8% for the same period ended April 19, 2008.

We generated net income of \$93.6 million, or \$0.98 per diluted share, for the sixteen weeks ended April 25, 2009, as compared to \$82.1 million, or \$0.86 per diluted share, for the sixteen weeks ended April 19, 2008. As a percentage of net sales, net income for the sixteen weeks ended April 25, 2009 was 5.6%, as compared to 5.4% for the sixteen weeks ended April 19, 2008. The increase in diluted earnings per share was primarily due to growth in our operating

income.

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Liquidity and Capital Resources

Overview

Our primary cash requirements to maintain our current operations include payroll and benefits, the purchase of inventory, contractual obligations and capital expenditures as well as the payment of quarterly cash dividends. In addition, we have used available funds to repay borrowings under our revolving credit facility and periodically repurchase shares of common stock under our stock repurchase program. We have funded these requirements primarily through cash generated from operations, supplemented by borrowings under our credit facilities as needed. We believe funds generated from our expected results of operations, available cash and cash equivalents, and available borrowings under our revolving credit facility will be sufficient to fund our primary obligations for the next fiscal year.

At April 25, 2009, our cash and cash equivalents balance was \$50.9 million, an increase of \$13.5 million compared to January 3, 2009. This increase resulted from additional cash flow from operating activities (including higher earnings and reduction in working capital) and proceeds from common stock, partially offset by capital expenditures and the repayment of debt. Additional discussion of our cash flow results is set forth in the Analysis of Cash Flows section.

Our outstanding indebtedness was \$176.1 million lower at April 25, 2009 when compared to January 3, 2009 and consisted of borrowings of \$75.0 million under our revolving credit facility, \$200.0 million under our term loan, \$3.8 million outstanding on an economic development note and \$1.3 outstanding under other financing arrangements. Additionally, we had \$89.2 million in letters of credit outstanding, which reduced our total availability under the revolving credit facility to \$585.8 million. The letters of credit serve as collateral for our self-insurance policies and routine purchases of imported merchandise.

In light of the uncertainty in the credit markets, it is possible that one or more of the banks in our revolving credit facility syndicate may be unable to provide our remaining available credit. We have 15 lenders participating in our revolving credit facility, each with a commitment of not more than 15% of the total \$750 million commitment. All of these lenders have met their contractual funding commitments to us through April 25, 2009. An inability to obtain sufficient financing at cost-effective rates could have a materially adverse impact on our business, financial condition, results of operations and cash flows.

Capital Expenditures

Our primary capital requirements have been the funding of our continued store expansion program, including new store openings and store acquisitions, store relocations, maintenance of existing stores, the construction and upgrading of distribution centers, and the development of proprietary information systems and purchased information systems. Our capital expenditures were \$50.2 million for the sixteen weeks ended April 25, 2009, or \$8.6 million less than the comparable period of fiscal 2008 due primarily to timing in store development. During the sixteen weeks ended April 25, 2009, we opened 46 stores, relocated 3 stores and remodeled 2 stores.

Our future capital requirements will depend in large part on the number of and timing for new stores we open or acquire within a given year and the investments we make in information technology and supply chain networks. As previously disclosed in our 2008 Form 10-K, we anticipate adding 75 new AAP and 30 new AI stores during fiscal 2009.

We also plan to make continued investments in the maintenance of our existing stores and supply chain network as well as investing in new information systems to support our turnaround strategies, including the implementation of a merchandising system over a multi-year timeframe. As previously disclosed in our 2008 Form 10-K, we anticipate

that our capital expenditures will be approximately \$180.0 million to \$200.0 million during fiscal 2009.

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Vendor Financing Program

Historically, we have negotiated extended payment terms from suppliers that help finance inventory growth. We have a short-term financing program with a bank for certain merchandise purchases. In substance, the program allows us to borrow money from the bank to finance purchases from our vendors. This program allows us to further reduce our working capital invested in current inventory levels and finance future inventory growth. At April 25, 2009 and January 3, 2009, \$95.2 million and \$136.4 million, respectively, was payable to the bank by us under this program.

We are anticipating the balance in financed vendor accounts payable to diminish as we transition our merchandise vendors to customer-managed services arrangements, or vendor program. As of April 25, 2009, we had approximately \$56 million in outstanding payables under our vendor program. It is possible that any ongoing or worsening deterioration in the credit markets could adversely impact funding for this program, which would reduce our anticipated savings, including but not limited to, causing us to increase our borrowings under our revolving credit facility.

Stock Repurchase Program

As of April 25, 2009, the stock repurchase program had \$188.9 million remaining, excluding related expenses.

Dividend

During the sixteen weeks ended April 25, 2009, we paid \$11.4 million in quarterly cash dividends, \$5.7 million of which was declared during our first quarter of fiscal 2009. Subsequent to April 25, 2009, our Board of Directors declared a quarterly dividend of \$0.06 per share to be paid on July 10, 2009 to all common stockholders of record as of June 26, 2009.

Analysis of Cash Flows

A summary and analysis of our cash flows for the sixteen week period ended April 25, 2009 as compared to the sixteen week period ended April 19, 2008 is included below.

Sixteen Week Periods
Ended